

**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,  
ON SENATE BILL NO. 160, SENATE DRAFT 2, HOUSE DRAFT 1,  
RELATING TO UNIVERSITY OF HAWAII NON-GENERAL FUNDS**

**House Committee on Finance  
April 8, 2015**

Chair Luke and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for the opportunity to testify in partial support of Senate Bill No. 160, Senate Draft 2, House Draft 1 (SB 160, SD 2, HD 1), which would repeal and reclassify a number of funds in the University of Hawaii'i. We also offer comments on specific sections of this bill.

The impetus for this bill is our Report No. 14-18, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the University of Hawaii'i*. Our review of these funds includes an evaluation of the original intent and purpose of each fund, including the degree to which each fund continues to serve its intended purpose. We also evaluate whether each fund meets statutory criteria for its respective fund type (i.e., special, revolving, or trust). This bill would implement many of our report recommendations.

**Funds that would be reclassified by SB 160, SD 2, HD 1**

The funds we listed in Report No. 14-18 that serve the purpose for which they were originally created, but function as and meet the criteria for revolving funds, would be *reclassified* from a special fund to a revolving fund.

1. **Hawaii'i Education Loan Program Special Fund** (Section 6) established under §304A-2161, HRS.

2. **Community Colleges Special Fund** (Section 8) established under §304A-2162, HRS.
3. **Professional Student Exchange Program Special Fund** (Section 20) established under §304A-2179, HRS.

**Funds that *do not meet* criteria would be repealed by SB 160, SD 2, HD1**

We support repealing UH funds that *do not meet* criteria:

1. **Hawai'i Medical Education Special Fund** (Section 11) established under §304A-2164, HRS. We recommended repeal; UH disagreed.
2. **Discoveries and Inventions Special Fund** (Section 14) established under §304A-2174, HRS. We recommended repeal; UH disagreed.
3. **University of Hawai'i Alumni Special Fund** (Section 16) established under §304A-2175, HRS. We recommended repeal; UH deferred to the Legislature.
4. **Animal Research Farm, Waiale'e, O'ahu Special Fund** (Section 18) established under §304A-2177. We recommended repeal; UH deferred to the Legislature.
5. **Senator Hiram L. Fong Scholarship Program Endowment Trust** (Section 24) established under §304A-2353. We recommended repeal; UH deferred to the Legislature.
6. **Senator Oren E. Long Scholarship Program Endowment Trust** (Section 26) established under §304A-2354. We recommended repeal; UH deferred to the Legislature.

**Administratively-created Funds that *do not meet* criteria would be abolished by SB 160, SD 2, HD1**

Section 29 of the bill abolishes administratively created funds that *do not meet* criteria:

1. **The Hurricane Iniki Insurance Proceeds Special Fund.**
2. **University of Hawai'i Okinawa Program Trust Fund.**

Section 29 would also abolish the administratively created **Agency Fund Trust Account**. In Report No. 14-18, we noted this account continues to serve the purpose for which it was created and meets the criteria for a trust account.

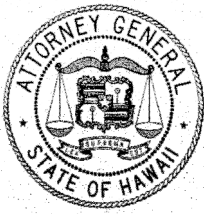
**We have little to no information on the fund repealed in Part XII, Section 28**

Section 28 would repeal the **Hawai'i Health Corps Revolving Fund**. While we generally support the Legislature decreasing the high number of special and revolving funds, we have little to no information on this fund. The fund was created in 2012 but has had no financial activity. Therefore, the fund has limited history from which to determine whether it is serving the purpose and meeting revolving fund criteria.

**Comments on establishing the University of Hawai'i Quasi-Endowment Trust Fund**

Section 1 statutorily establishes the **University of Hawai'i Quasi-Endowment Trust Fund**. However, unlike special and revolving funds established under Sections 37-52.3 and 37-52.4, HRS, respectively, trust funds and accounts are not required to be established by an act of the Legislature. In addition, Section 1 of this bill may not meet the definition of a trust fund when the primary sources of income to be deposited into the fund from the existing revolving fund are derived from interest earned from the UH-Mānoa Stadium Stock Fund and community colleges' lease rents. Section 37-62, HRS, defines a trust fund as one in which "designated persons or classes of persons have a vested beneficial interest ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes." Since the UH needs a vehicle to expend the endowment moneys and other cash deposits for specific purposes as explained in its testimony on HB 545, it may be more appropriate to statutorily create a special or revolving fund, rather than a trust fund.

Thank you for the opportunity to testify in partial support of SB 160, SD 2, HD 1, and to provide comments. I am available to answer any questions you may have.



## **TESTIMONY OF THE DEPARTMENT OF THE ATTORNEY GENERAL TWENTY-EIGHTH LEGISLATURE, 2015**

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**ON THE FOLLOWING MEASURE:**

S.B. NO. 160, S.D. 2, H.D. 1, RELATING TO UNIVERSITY OF HAWAII NON-GENERAL FUNDS.

**BEFORE THE:**

HOUSE COMMITTEE ON FINANCE

**DATE:** Wednesday, April 8, 2015

**TIME:** 3:00 p.m.

**LOCATION:** State Capitol, Room 308

**TESTIFIER(S):** WRITTEN COMMENTS ONLY. For more information, call  
Deputy Attorney General Diane Erickson, 586-0618

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Chair Luke and Members of the Committee:

The Attorney General has a concern about this bill.

Section 37-62, Hawaii Revised Statutes, defines "revolving fund" to mean "a fund from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds." If the Hawaii educator loan program, described on page 3 at section 6 of the bill is intended to operate through a revolving fund as a self-sustaining program by way of charges for services or through transfers from other accounts or funds, then the wording on page 3, lines 16-17, of the bill "Appropriations made by the legislature" should be deleted.

Thank you for the opportunity to offer our comments on this bill.



# **UNIVERSITY OF HAWAII SYSTEM**

## **Legislative Testimony**

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Testimony Presented Before the  
House Committee on Finance  
April 8, 2015 at 3:00 pm Room 308

by  
Kalbert Young  
Vice President – Budget & Finance & Chief Financial Officer  
University of Hawai'i

### **SB160 SD2 HD1 – RELATING TO UNIVERSITY OF HAWAII NON-GENERAL FUNDS**

Chair Luke, Vice Chair Nishimoto, and members of the Finance Committee:

Thank you for this opportunity to testify. The University of Hawai'i (UH) generally supports the proposed actions in SB160 SD2 HD1, Relating to University of Hawaii Non-General Funds, but does request consideration for a number of revisions.

SB160 SD2 HD1 proposes several actions:

- Establishes the University of Hawaii Quasi-endowment Trust Fund
- Reclassifies the following funds as revolving funds:
  - Hawaii Educator Loan Program Special Fund;
  - Community Colleges Special Fund; and
  - Professional Student Exchange Program Special Fund
- Repeals the following funds:
  - Hawaii Medical Education Special Fund;
  - Discoveries and Inventions Special Fund;
  - University of Hawaii Alumni Special Fund;
  - Animal Research Farm, Waiale'e, O'ahu Special Fund;
  - Career and Technical Training Projects Revolving Fund;
  - Senator Hiram K. Fong Scholarship Endowment Trust Fund;
  - Senator Oren E. Long Scholarship Endowment Trust Fund; and
  - Hawaii Health Corps Special Fund
- Abolishes the following funds:
  - Hurricane Iniki Insurance Proceeds Special Fund;
  - Agency Fund Trust Account; and
  - University of Hawaii Okinawa Program Trust Fund
- Lapses all unencumbered balances in these funds to the credit of the general fund

The Hawaii Medical Education Special Fund was established in 2003 with the Hawai'i Medical Education Council (HMEC) to address the needs of graduate medical education in Hawaii. This account was established to separate any funding received by the state or extramural funding that was solely designated to support graduate medical education in Hawaii. As of January 2015, a Family Medicine residency consortium has been

established with direct funding Queens, Hawai'i Pacific Health, and HMSA. A portion of these consortium funds that have been designated to support the family medicine residency program may be deposited into this fund as early as this March. Eliminating this fund would hinder the operations of this critical family residency program at Wahiawa General Hospital, Queens Medical Center, and Kapi'olani Women's and Children's Medical Center. The Auditor's Report No. 14-18 recommended repeal of this fund, given what the Auditor noted as the program's "unfunded status and the fund's lack of financial activity." **Considering that recent activity to finalize the consortium will mean that there will be activity for this fund's purpose, the University recommends maintaining the statutory authority of the Hawaii Medical Education Special Fund.**

The Discoveries and Inventions Special Fund (DISF) supports innovation and research commercialization. Its enabling statute (304A-2174) states that the fund "...shall be used to develop technologies that have potential commercial value, support the administration of technology transfer activities, and facilitate economic development through education and research undertaken at the university." This fund is a major component of UH's strategic priorities in the Hawai'i Innovation Initiative. In partnership with the local business community, UH has recently taken on a greater role to help diversify the state's economy by building a thriving innovation, research, and education and training enterprise. The Office of Technology Transfer and Economic Development (OTTED) will be an integral part of this commitment.

The DISF will provide OTTED and the University of Hawai'i the opportunity for funding innovation and research commercialization and to secure patents, copyrights, licensing and marketing of discoveries, inventions, and technologies developed at UH. To help spearhead this effort, local venture capitalist and entrepreneur William K. Richardson was hired in December 2014 as OTTED director. His office will work closely with UH's recently launched proof-of-concept center, XLR8UH, to help faculty and student researchers to fully exploit their UH-owned technologies commercially. The Auditor in Audit Report 14-18 did note that this special fund does continue to serve its originally intended purpose, but noted that it receives funds from the Research and Training Revolving Fund (RTRF) to cover some expenses. Considering the overall use, the future focus and purpose of the fund, such RTRF funding is believed appropriate, to do otherwise, would mean that total support for this established program would be borne solely by general fund appropriations. **The University recommends that the Discoveries and Inventions Special Fund be maintained as a statutorily authorized special fund since there is an existing program and operation already in place that is dependent upon the use of the fund.**

Similarly, the Hawaii Health Corps Revolving Fund was created by Act 187, SLH 2012, which passed unanimously from the Legislature. The fund was created to support the Hawaii Health Corps Program and the Hawaii Rural Health Care Provider Loan Repayment Program to encourage eligible physicians, physician assistants, and nurse

practitioners to serve for a period of time in designated health professional shortage areas. Given the limited history for this fund, and that sources of originating funds are by private gifts, donations, legislative appropriations and loan repayments over time, the University believes it is premature to repeal this fund with less than 3 years since its inception. The Auditor did not recommend for this fund to be repealed in Audit Report 14-18, considering that there was limited history to determine if its status was more appropriate as a special fund or a revolving fund. **In agreeing, the University recommends that the Hawaii Health Corps Revolving Fund maintain its current statutorily authorized status as a revolving fund.**

The University is in the process of abolishing the Hurricane Iniki Insurance Proceeds Special Fund as identified by the Auditor's Report 14-18. The University agrees that the original purpose of the fund has been satisfied and is returning the unencumbered balance to the DAGS Risk Management. **The University agrees with the recommendation in SB160 SD2 HD1 to repeal the Hurricane Iniki Insurance Proceeds Special Fund.**

**Please note that the University of Hawaii Okinawa Program Trust Fund was closed in FY2014 and therefore its inclusion in SB160 SD2 HD1 is unnecessary for practical purposes.** This trust fund was created administratively, but has since been closed administratively from use.

There are a number of other funds identified for recommended action in SB160 SD2 HD1. The University does not have any opposition to the repeal or recommended disposition of these funds described in this measure.

In conclusion, UH **prefers the companion version of this bill, HB545 HD2 SD1**, and respectfully requests the Committee amend SB160 SD2 HD1 accordingly.

Thank you for your time and consideration.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Reclassification of special funds

BILL NUMBER: SB 160, HD-1

INTRODUCED BY: House Committee on Higher Education

EXECUTIVE SUMMARY: Implements the state auditor's recommendation to reclassify various funds of the University of Hawaii.

BRIEF SUMMARY: Establishes a University of Hawaii quasi-endowment trust fund into which shall be deposited income derived from the University's endowment fund.

Reclassifies the following special funds as revolving funds:

- Housing educator loan program special fund
- Community colleges special fund
- Professional student exchange program special fund

Repeals:

- Hawaii medical education special fund
- Discoveries and inventions special fund
- University of Hawaii alumni special fund
- Animal research farm, Waialeale, Oahu special fund
- Career and technical training projects revolving fund; University of Hawaii at Hilo
- The Senator Hiram L. Fong scholarship program; endowment trust
- The Senator Oren E. Long scholarship program; endowment trust
- Hawaii health corps revolving fund

Abolishes the following funds administered by the University of Hawaii:

- The Hurricane Iniki insurance proceeds special fund established in 1993
- Agency fund trust fund established prior to July 1985
- University of Hawaii Okinawa program trust fund

On July 1, 2015, all unencumbered balances remaining in the repealed funds shall lapse into the general fund.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This measure implements the state auditor's recommendation in the auditor's report No. 14-18 that reviewed the special funds, revolving funds, trust funds, and trust accounts of the University of Hawaii. The special funds reclassified by this measure were found to be essential to the respective program areas while the funds repealed were found to no longer be necessary or not meeting the criteria for continuance under law.



The 1989 Tax Review Commission noted that use of special fund financing is a “departure from Hawaii’s sound fiscal policies and should be avoided.” It also noted that special funds are appropriate where the revenues to the funds maintain some direct connection between a public service and the beneficiary of that service. The Commission found that special funds which merely set aside general funds cannot be justified as such actions restrict budget flexibility, create inefficiencies, and lessen accountability. It recommended that such programs can be given priority under the normal budget process without having to resort to this type of financing.

Seconding the Commission’s harsh criticism was the State Auditor’s report issued in February of 1991 that recognized that the “tax is levied on the general public rather than specific beneficiaries of the program,” and thus the fund did not reflect a “direct link between user benefits and user charges.”

As a result of the recent spotlight of monies in special funds, the legislature by Act 130, SLH 2013, requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and every five years which assists in making government finances more transparent.

Digested 4/7/15